Inverness College

Annual Report to the Board of Management and the Auditor General for Scotland

2012/13

Scott-Moncrieff
business advisers and accountants

Inverness College

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Summary

Our audit of Inverness College is complete and our opinions on the truth and fairness of the financial statements of the College for the year ended 31 July 2013 and on the regularity of transactions are unqualified.

Finance

Financial position

The College has reported an operating surplus for the year to 31 July 2013 of £431,403 which compares favourably to the budgeted surplus of £95,000. The College's revenue budget forecasts a break even position for the eight month period to 31 March 2013/14 and for the following year to 31 March 2014/15.

There has been a significant write down of the values of the two main campus sites during 2012/13, to reflect the expected net recoverable amount. This is due to a significant curtailment of the useful economic life, linked to the new campus at Beechwood. The majority of the write down has been charged to the revaluation reserve, which has been reduced to nil. The remaining impairment charge has been recognised in the Income and Expenditure account and has been wholly off-set by a release from deferred SFC grants. This approach was agreed in advance with the SFC. We have reviewed the College's treatment of the revaluation and its estates developments and have found them to be reasonable and appropriate.

Balance sheet

The College has a healthy net asset position due to substantial deferred capital grants. It also has a significant cash balance. The College has made capital additions of £2,832,653 for project management and consultancy fees directly attributable to the new campus project.

Going concern and subsequent events

The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate for the 2012/13 financial statements.

Governance

The College's Corporate Governance Statement for 2012/13 explains that the College was fully compliant with the UK Corporate Governance Code throughout the period. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

Henderson Loggie have concluded that the College operated adequate and effective internal control systems in the year, with the exception that significant internal control weaknesses were identified in relation to the systems for collecting and recording FES data. All weaknesses that were identified are being addressed by College management to strengthen the system of internal controls.

We have not identified any areas of concern from our review of the College's corporate governance arrangements.

Looking Forward

In 2012, the Scottish Government announced that a 2010 decision by the UK Office for National Statistics reclassified Further Education Institutions as being part of the public sector. The change in classification will have a significant impact on the budgetary and financial accounting framework in which the College will operate. The reclassification will come into effect from 1 April 2014.

The Financial Reporting Council has adopted Financial Reporting Standards 100, 101 and 102 for financial years beginning on or after 1 January 2015. These three standards in effect become the new UK GAAP. The FE/HE SORP Board has developed a draft SORP which takes account of the key requirements of the new Financial Reporting Standards. The new accounting standards come into force for financial years commencing on or after 1 January 2015.

Conclusion

This report concludes the 2012/13 audit of Inverness College. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Director of Corporate Services. We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff

December 2013

Introduction

1. This report summarises the findings from our external audit of Inverness College ("the College") in 2012/13. The scope of our audit was set out in our External Audit Strategy and Plan which was presented to the Audit Committee on 28 May 2013. Our audit has focused on the financial statements and governance arrangements at the College.

2. Our plan summarised five key issues in relation to the 2012/13 audit:

   - Estates developments.
   - Financial position.
   - Pension Fund liabilities.
   - Early retirement liabilities.
   - Management override and revenue recognition.

   This report includes our findings in relation to these key issues.

3. *International Standard on Auditing (UK & Ireland) 260: Communication with those charged with governance* (ISA 260) requires us to report to those charged with governance on the significant findings from our audit. This report discharges our responsibilities through reporting key findings from our audit.

4. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and ISAs. Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist.

5. The report has been discussed and agreed with the Director of Corporate Services.

6. We would like to thank the Director of Corporate Services and his staff for their kind co-operation and assistance during our audit.

7. The report is also addressed to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial Statements

Introduction

8. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the College. In this section we summarise the issues arising from our audit of the 2012/13 financial statements.

Management responsibilities

9. Within the terms and conditions of the financial memorandum between the Scottish Funding Council (SFC) and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

10. The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 2005, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

11. We audit the financial statements and give an opinion on whether they:

- give a true and fair view of the state of the College's affairs as at 31 July 2013 and of its surplus or deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

12. We confirm whether, in our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

13. We express an opinion on whether the information in the Operating and Financial Review is consistent with the financial statements.

14. We are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with SFC requirements.

Confirmation of auditor independence

15. *Ethical Standard 1: Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

16. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

a) There are and have been no relationships between Scott-Moncrieff and the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence.

b) Scott-Moncrieff has not provided any consultancy or non-audit services to the College.

Qualitative aspects of accounting practices and financial reporting

17. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the College.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates, pension liabilities and valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the financial statements of any uncertainties including significant risks and disclosures such as pending litigation.	There are no significant uncertainties or risks that should be included in the financial statements, with existing disclosure of any pertinent issues deemed appropriate.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	The College has recognised an exceptional impairment charge in the year on its Midmills and Longman Road Sites. There has also been a related release from deferred capital grants. From the testing performed, we have concluded that these transactions have been appropriately accounted for in the financial statements.
Apparent misstatements in the Operating and Financial Review and inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the financial statements and the Operating and Financial Review.
Any significant financial statement disclosures to bring to your attention.	The significant financial statement disclosures that we consider should be brought to your attention are described below under the heading "Significant issues from the 2012/13 financial statements".
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit with regards to any accounting treatment or disclosure. We identified five immaterial adjustments which have not been reflected in the financial statements. The aggregate impact of these adjustments would be to increase the College's surplus by £15,964, to £447,367. A detailed list of the unadjusted differences will be appended to our letter of representation.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Overall conclusion

An unqualified audit opinion on the financial statements

18. The annual accounts are due to be approved by the College on 18 December 2013. We plan to give an unqualified opinion on the financial statements for the year ended 31 July 2013 in our independent auditor's report.

19. We are satisfied that the information in the Operating and Financial Review is consistent with the financial statements.

An unqualified audit opinion on the regularity of transactions

20. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to confirm that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We plan to issue an unqualified opinion on the regularity of transactions in the College's accounts.

Financial statements preparation

21. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and we are grateful to the Director of Corporate Services and the finance staff for their assistance and support during the course of the audit.

Audit adjustments

22. We identified one significant adjustment to the income and expenditure account and one significant adjustment to the income and expenditure reserve. There has been no impact on the surplus for the year. Both items have been adjusted for by management. The effect of these journals is detailed below:

	Income and Expenditure (£)		Balance sheet (£)	
	Dr	Cr	Dr	Cr
Expenditure: Exceptional item	769,216			
Income: Exceptional item		769,216		
Being the recognition of the impairment charge and related release from deferred capital grants in the I&E				
Pension liability			£121,000	
Early retirement provision				£121,000
Income & Expenditure reserve			£121,000	
Pension reserve				£121,000
Being the disclosure of unfunded benefits within the pension liability as a provision				

Unadjusted differences

23. We identified five immaterial adjustments which have not been reflected in the financial statements. The adjustments relate to the College's accounting for expenditure accruals and fixed assets. The aggregate impact of these adjustments would to increase the College's surplus by £15,964, to £447,367. A detailed list of the unadjusted differences will be appended to our letter of representation. The College agrees that these unadjusted differences are immaterial both individually and in aggregate to the financial statements as a whole.

Review of accounting systems

24. The College has a number of income deferrals that have rolled forwards from previous years. In some cases the College does not have a clear plan for the use of the funds. There is a risk that the income that has been deferred may be due back to the original funder if is not 'earned' by the College. The College should ensure that clear plans are in place for the use of all deferred income, in line with any conditions imposed by the original funding agreement.

Management action plan point 1

25. The College began using the SITS student record system to administer tuition fee income in 2012/13. The system is used by all University of the Highlands and Islands (UHI) colleges and is commonly used across the sector. Discussions with finance staff indicate that further training is required on the system to ensure that the finance team can use it as efficiently and effectively as possible. Otherwise, the College may not achieve planned benefits from the SITS system.

Management action plan point 2

Significant issues from the 2012/13 audit

26. As noted in our audit plan, presented to the Audit Committee on 28 May 2013, the following audit risk areas were identified and were therefore considered in detail during our audit fieldwork. Discussion of the College's financial position is carried out through the Use of Resources section later in this report.

Estates developments

27. The College continues to move forward with plans to relocate to a new campus at Beechwood. The College is using the new Non-Profit Distributing (NPD) funding model, in collaboration with the Scottish Futures Trust, for the £51m of capital construction costs. The other £11m of costs associated with the project are being provided through a mix of College and SFC funding. This mechanism for funding estates development is new, technically complex and there is a lack of detailed guidance currently available on the specific accounting implications.

28. The estates development is part of a strategy which will involve disposal of the existing sites at Longman Road and Midmills. It was previously highlighted that this would have significant implications on accounting for the existing estate. There has been a write down of the related asset values during 2012/13 to bring them in line with the expected net recoverable amount. The majority of the write down has been charged to the revaluation reserve, which has been reduced to nil. The remaining impairment charge has been recognised in the Income and Expenditure account and has been wholly off-set by a release from deferred SFC grants. This approach was agreed in advance with the SFC.

29. The College has also made capital additions of £2,832,653 for project management and consultancy fees directly attributable to the new campus project. We have reviewed the College's treatment of the revaluation and its estates developments and have found them to be reasonable and appropriate.

Pension Fund liabilities

30. The College's employees belong to two principal defined benefit pension schemes; the Scottish Teachers' Superannuation Scheme (STSS) for teaching staff and the Highland Council Pension Fund (HCPF) for the non-teaching staff.

31. The STSS is a multi-employer, notionally funded scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme. In line with *Financial Reporting Standard 17: Retirement Benefits* (FRS 17), the College does not recognise any asset or liability relating to the STSS and the scheme is effectively accounted for as if it was a defined contribution scheme.

32. The HCPF is also a multi-employer scheme but the College can identify its share of underlying assets and liabilities and has therefore recognised a net liability in its balance sheet. The College reported a liability of £4,012,000 as at 31 July 2013, a decrease on the £4,438,000 equivalent position as at 31 July 2012.

33. We have reviewed the College's accounting for the pension liability and confirm that it complies with the requirements of FRS 17 and that the disclosure is consistent with the actuarial valuation. We have also confirmed that the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.

Early retirement liabilities

34. The College has previously offered early retirement to staff, and makes monthly payments to the pension fund to cover any shortfall arising from the decision to grant early access to retirement benefits. In line with *FRS12: Provisions, Contingent Liabilities and Contingents Assets*, the College creates a provision for the future payments in relation to these early retirements. The provision for early retirement of teaching staff was £1,973,902 at 31 July 2013 (£2,048,184 at 31 July 2012)

35. The College has also recognised a smaller provision of £241,409 (£167,079 at 31 July 2012), within Other Provisions, in respect of early retirement costs incurred on members of the Highland Council Pension Fund. This provision recognises the liabilities in relation to individuals who were not included in the actuarial valuation of the fund as at 31 July 2013.

36. We reviewed the College's accounting treatment of its liabilities arising from early retirements and confirmed that this was reasonable and appropriate.

Management override and revenue recognition

37. Management override and revenue recognition are presumed risks under *ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements* and are tested as part of our standard audit approach. Management are in a unique position to override controls that otherwise may appear to be operating effectively, potentially facilitating fraud. Although the level of risk of management override of controls varies from entity to entity, the risk is nevertheless present in all entities.

38. There is also a risk that the College is misreporting its income through an inaccurate or inappropriate approach to revenue recognition. However, this is generally of much lower risk in public sector bodies than in commercial entities.

39. We have reviewed the accounting records for significant transactions outside the normal course of business and have obtained supporting evidence to ensure that these transactions are valid and accounted for correctly. We have also evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied.

Management representations

40. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

Use of Resources

41. This section of the report summarises our findings in relation to the College's financial performance for the year and its position as at 31 July 2013.

42. It is the responsibility of the College to conduct its financial affairs in a proper manner. It is our responsibility to audit the financial statements and to consider the College's governance arrangements in relation to the College's financial position.

Financial position

The College has reported a surplus of £431,403 for the year to 31 July 2013

43. The College has reported an operating surplus for the year to 31 July 2013 of £431,403 which compares favourably to the budgeted surplus of £95,000.

44. In line with the rest of the sector, the College suffered a significant reduction in its recurrent grant from the SFC. SFC recurrent grant has reduced by £937,108 since 2011/12, to £7,363,552. However, this reduction has been partially off-set by an increase of £790,429 in the recurrent grant received from UHI, to £3,335,729. A one-off release from deferred capital grants of £769,216 has been recognised in income in the year, described in paragraph 28 above. Excluding this exceptional credit there has only been a small reduction in income of £235,432 (1.5%) compared to 2011/12.

45. Expenditure in the year was £16,064,746. A one-off impairment charge of £769,216 has been recognised in the year, described in paragraph 28 above. Excluding this cost, expenditure has remained broadly consistent at £15,295,530 (£14,985,648 in 2011/12). The largest influence on this figure has been a rise in staff costs of £498,450, from £10,134,276 in 2011/12 to £10,632,726 in 2012/13. This has been principally due to incremental uplifts and the effect of pay awards for teaching staff.

Balance sheet

The College has a healthy net asset position due to substantial deferred capital grants

46. The College has an overall deficit balance on reserves of £1,579,928 (a surplus of £9,788,864 at 31 July 2012) and holds £10,217,035 of deferred capital grants (£7,943,218 at 31 July 2012). This gives a net asset position of £8,637,107 (£17,732,082 as at 31 July 2012). The reduction of the reserves position is principally due to the writing down of the Revaluation Reserve as a result of the impairment of the Longman and Midmills sites in advance of their planned disposal as part of the estates strategy. This has reduced the Revaluation Reserve to nil (£12,737,623 as at 31 July 2012).

47. The income and expenditure reserve has increased to £2,432,072 (£1,489,241 as at 31 July 2012) as a result of the surplus in the year and transfers from the other reserves. There has been a slight reduction in the pension liability from £4,438,000 at 31 July 2012 to £4,012,000 at 31 July 2013. This reduction reflected an increase in the net value of employer assets in the scheme due to more favourable forecast returns on assets than in previous years.

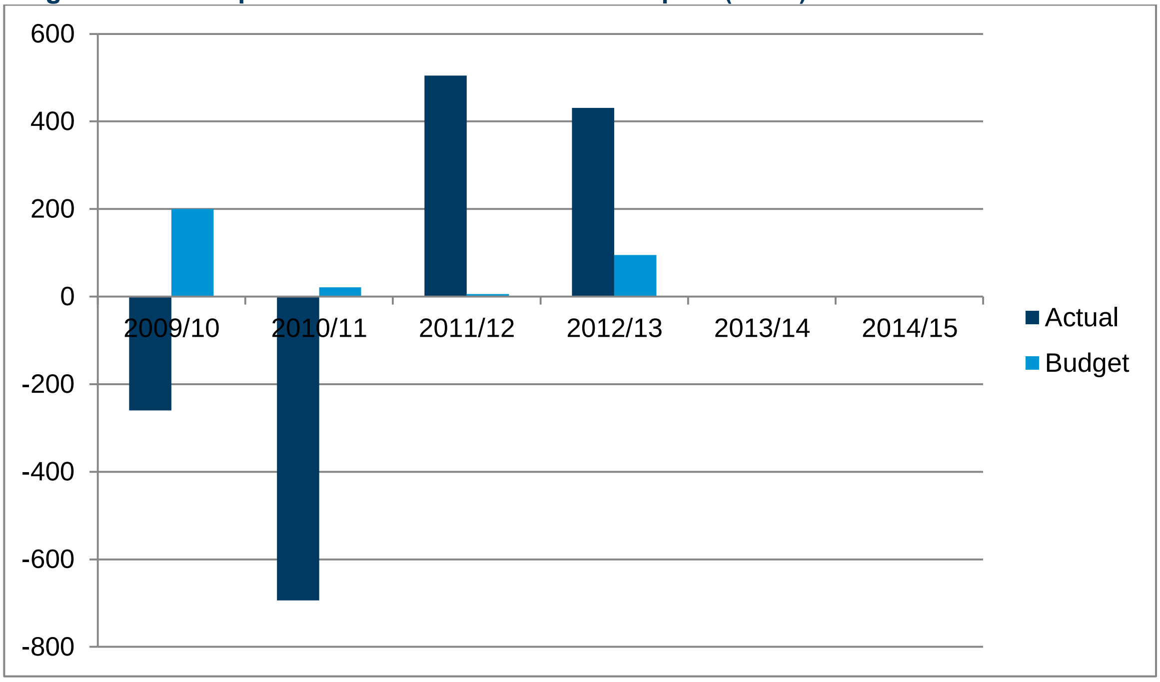
48. The College had a large cash balance of £5,819,743 at the year-end (£5,648,095 at 31 July 2012).

Financial forecasts

Funding has been confirmed for 2013/4 and a break even position has been forecast

49. The College revenue budget for the eight month period to 31 March 2014 forecasts a break even position. SFC has confirmed funding for 2013/4 that will be allocated on a regional basis through outcome agreements. Inverness College falls within the Highlands and Islands region, along with Argyll College, Lews Castle College, Moray College, North Highland College, Orkney College, Perth College, Shetland College and West Highland College.

Diagram 1: Actual performance and forecasts of surplus (£'000)



Source: Previous annual reports & 2013 Financial Forecast Return

50. Diagram 1 shows that the College has performed well in 2012/13, as it did in 2011/12. The College completed its financial recovery plan in 2010/11 and the deficit in that period reflects £0.700m of restructuring costs being incurred with a view to making the College more sustainable. Notwithstanding the impact of the eight month reporting period expected for 2013/14, the College is forecasting that income will be broadly consistent over the coming two years. With expenditure also expected to be consistent a break even position has been calculated for 2013/14 and 2014/15.

Going concern and subsequent events

51. We are required under *ISA 570: Going Concern* to consider the appropriateness of the board of management's use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.

52. In order to gain assurance on these matters our work has included:

- Reviewing bank facilities.

- Performing a review of budgets and cash flow projections covering a period of 12 months from the expected signing of the audit report, together with post year end management accounts.
- Reviewing minutes of post balance sheet board meetings.
- Enquiring of senior management and the College's solicitors concerning litigation, claims and assessments.
- Consideration of future SFC and UHI funding.
- Performing sample testing of post balance sheet transactions.

53. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate.

Governance

54. It is the College's responsibility to ensure that it has adequate governance arrangements in place. It is our responsibility to review and report on these arrangements as they relate to:

- the College's review of its systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and other irregularities;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- the College's financial position.

55. We have reported on the corporate governance arrangements in relation to its financial position in the "Finance and Use of Resources" sections of this report. This section includes our comments on other aspects of the College's arrangements.

Corporate Governance

Governance structures in place at the College are appropriate

56. Colleges have to include a statement covering the responsibilities of their Board of Management in relation corporate governance arrangements in their annual accounts. The statement should describe the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management, and report on the College's compliance with the UK Corporate Governance Code.

57. The College's Corporate Governance Statement for 2012/13 explains that the College was compliant with the UK Corporate Governance Code throughout the period.

58. We reviewed the Corporate Governance Statement by:

- checking the statement against SFC and Audit Scotland guidance;
- considering the adequacy of the process put in place by the Principal and Board of Management to obtain assurances on systems of internal control.; and
- assessing whether disclosures in the statement are consistent with our knowledge of the College.

59. We are satisfied that the statement is consistent with SFC and Audit Scotland guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

60. The College recognises that there is still some uncertainty over potential changes to the governance structure of the College, in the wider UHI and regionalisation context. The College continues to monitor developments in this area.

Risk management

The College has risk management systems in place

61. Risk management is important to the establishment and regular review of systems of internal control. The College's financial statements outline the principal risks and uncertainties of the College and the College's

response. We have found that the College has adequate risk management arrangements in place to monitor and help mitigate key strategic risks to the College.

Internal audit

62. The internal audit service is a key component of the College's internal control framework. We have reviewed the College's arrangements to ensure that the work of internal audit is sufficient in quality and volume and complies with best practice. Our review was performed in accordance with the Code of Audit Practice and *ISA 610: Considering the work of internal audit*.

Considering the work of internal audit

63. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. Henderson Loggie provided the internal audit service in 2012/13 and we have considered their findings within our audit process. Henderson Loggie have concluded in their annual report that the College operated adequate and effective internal control systems in the year, with the exception that significant internal control weaknesses were identified in relation to the systems for collecting and recording FES data. All weaknesses that were identified are being addressed by College management to strengthen the system of internal controls. We are grateful to Henderson Loggie for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

64. Responsibility for preventing and detecting fraud and other irregularities lies with the Board of Management. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

65. We have considered how the College ensures compliance with all relevant guidance and regulations and find arrangements to be adequate. This has included a consideration of the College's arrangements for the prevention and detection of fraud and irregularity. During the year the College has implemented more formal recording and monitoring of legal and regulatory circulars received from the SFC and other bodies.

66. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity

Standards of conduct

67. We have considered the arrangements made by management in relation to standards of conduct and prevention and detection of corruption. Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions, registers of interest and schemes of delegation and complying with national and local Codes of Conduct. We have also considered arrangements in place for ordering and procurement and disposal of assets.

68. We have found the College's arrangements to be appropriate in these areas.

Looking forward

Office of National Statistics reclassification

69. In 2012, the Scottish Government announced that a 2010 decision by the UK Office for National Statistics reclassified Further Education Institutions as being part of the public sector. The change in classification will have a significant impact on the budgetary and financial accounting framework in which the College will operate. The reclassification will come into effect from 1 April 2014.

70. The full impact of the reclassification has yet to be fully understood but colleges will be required to prepare financial statements with an accounting period to 31 March each year. Furthermore, like other central government bodies, colleges will no longer be allowed to hold retained Income and Expenditure reserves. Subsequent financial plans will need to be sufficiently robust to enable colleges to deliver balanced budgets year on year.

FE College Statement of Recommended Practice (SORP)

71. Colleges are required to follow the Statement of Recommended Practice: *Accounting for Further and Higher Education 2007* ("the SORP"). The SORP reflects UK Generally Accepted Accounting Practice (UK GAAP) and aims to combine the requirements of further and higher education institutions and key stakeholders into recommended accounting practice.

72. Over the last ten years, the Financial Reporting Council has been working on a conversion programme towards all financial reporting being based on International Financial Reporting Standards (IFRS). As a result of this conversion programme the Financial Reporting Council has adopted into UK GAAP, Financial Reporting Standards 100, 101 and 102 for financial years beginning on or after 1 January 2015. These three standards in effect become the new UK GAAP, based on IFRS.

73. The FE/HE SORP Board, consisting of key stakeholders from Higher and Further Education bodies across the UK, accounting practitioners, as well as representatives from funding bodies, has developed a draft SORP which takes account of the key requirements of the new Financial Reporting Standards.

74. The draft SORP includes changes in disclosure and terminology within the accounts, including the names of the primary financial statements.

75. The new accounting standards come into force for financial years commencing on or after 1 January 2015, which means 2015/16 will be the first reporting year for institutions. However, comparative figures for 2014/15 are required, which in turn will require an opening balance sheet as at 1 April 2014 to be prepared.

Appendix 1 – Management action plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2012/13. These are the issues that we believe need to be brought to the attention of the College.

The action plan details the officers responsible for implementing the recommendations and implementation dates. The College should assess these recommendations for their wider implications before approving the action plan. Following submission of this report to the Audit Committee, we will send a copy to the Auditor General.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

We identified two observations which we consider requires management action this year. Two prior year management actions remain outstanding from 2011/12.

Grade	Definition	2012/13 recommendations	2011/12 recommendations
5	Very high risk exposure - Major concerns requiring immediate attention	-	-
4	High risk exposure - Absence / failure of significant key controls	-	1
3	Moderate risk exposure - Not all key control procedures are working effectively	1	1
2	Limited risk exposure - Minor control procedures are not in place / not working effectively	1	-
1	Efficiency / housekeeping point	-	-

Action plan

1.	Deferred income (paragraph 24)
Observation	The College has a number of income deferrals that have rolled forwards from previous years. In some cases the College does not have a clear plan for the use of the funds.
Risk and recommendation	There is a risk that the income that has been deferred may be due back to the original funder if is not ‘earned’ by the College. The College should ensure that clear plans are in place for the use of all deferred income, in line with any conditions imposed by the original funding agreement. **Grade 3**
Management Response	Plans will be completed for as many of the deferred project items as possible by the end of the 8 month period in March 2014. **Responsible officer:** Director of Corporate Services **Implementation date:** March 2014

2.	Implementation of the SITS system (paragraph 25)
Observation	The College began using the SITS student record system to administer tuition fee income in 2012/13. The system is used by all University of the Highlands and Islands (UHI) colleges and is commonly used across the sector.
Risk and recommendation	The College may not achieve planned benefits from the SITS system. Further training is required on the system to ensure that the finance team can use it as efficiently and effectively as possible. **Grade 2**
Management Response	SITS training has already been given to new member of the Finance team and further training will be put in place if required for the team. **Responsible officer:** Director of Corporate Services **Implementation date:** July 2014

Follow up on outstanding action plan points

	Provisions for potential claw back of funding
Observation	The College has made immaterial provisions for potential claw back in three different funding streams. Some of these provisions have remained consistent over recent years. At present there is some uncertainty over the value the potential claw backs and the certainty that they will be required. The College should only recognise provisions for claw back where there is an obligation to transfer economic benefits as a result of past transactions or events**.**
Risk and recommendation	Due to the uncertainty surrounding these provisions there is a risk that there is an immaterial misstatement in the College's financial statements. We endorse the Director of Corporate Services plan to investigate these matters in the coming year to ensure clarity is achieved over any obligation. **Grade 3**
Management Response	Agreed. **Responsible officer:** Director of Corporate Services **Implementation date:** by end July 2013
Audit observation in current year	There remain some provisions for potential claw back where there is some uncertainty over the value the potential claw backs and the certainty that they will be required. The College should investigate these matters in the coming year to ensure clarity is achieved over any obligation.

Follow up on outstanding action plan points (continued)

	Accounting for the new campus
Observation	The financing and operating model for the new campus development is new and potentially technically complex and there is a lack of guidance available on the accounting implications of the model. There remains significant uncertainty over the accounting treatment of the project going forward and the implications this may have on the assets currently recognised by the College.
Risk and recommendation	There is a risk that that the model will have a considerable impact on the College's financial statements in the coming years which has not yet been fully considered, primarily due to the lack of guidance available on the accounting implications of the model. The College will need to consider the impact of the model in detail to ensure that the correct accounting treatment is adopted going forward. This should be carried out in consultation with the SFT, the SFC and the College's advisors on the project Ernst & Young. **Grade 4**
Management Response	Agreed. **Responsible officer:** Director of Corporate Services **Implementation date:** by end July 2013
Audit observation in current year	We have reviewed the College's treatment of its estates developments in 2012/13 and have found them to be reasonable and appropriate. We will continue to work with management to ensure the estates developments are appropriately treated and to highlight potential implications for future years of the College's estates development plans.

Appendix 2 – Your audit team

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